

ORIGINAL

OPEN MEETING

MEMORANDUM



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TO: THE COMMISSION

Arizona Corporation Commission

DOCKETED

2015 OCT -6 A 9:01

FROM: Utilities Division

OCT 06 2015

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: October 6, 2015

DOCKETED BY

Rtu

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF A TEMPORARY CUSTOMER CREDIT ADJUSTMENT FOR THE PERIOD OF NOVEMBER 1, 2015, THROUGH APRIL 30, 2016. (DOCKET NO. G-04204A-15-0307)

On August 24, 2015, UNS Gas, Inc. ("UNSG" or "Company") filed an application for approval of a temporary Purchased Gas Adjustor ("PGA") credit adjustment of 10.0 cents per therm for the period of November 1, 2015, through April 30, 2016. UNSG also seeks approval to terminate the temporary credit in the event the PGA bank balance reaches zero at any time during the proposed term. UNSG requests expedited treatment of this application to ensure that the adjustment is effective as of November 1, 2015.

**BACKGROUND**

UNSG uses the PGA as a mechanism to recover the cost of natural gas purchased by UNSG on behalf of its customers. The Company's monthly PGA rate is calculated based on a 12-month rolling average, with a \$0.15 per therm bandwidth. The rolling average and bandwidth are designed to reduce the volatility of gas cost passed on to customers. The rolling average produces a more predictable and consistent PGA rate, while the bandwidth provides another brake on volatility. Both of these features limit rate shock to customers.

Differences between the rolling average cost of gas and the actual cost of natural gas are tracked and recorded in the PGA bank balance, so that under-collections can be recovered by the Company and over-collections can be returned to ratepayers. Decision No. 70011 (November 27, 2007) imposed a \$10 million threshold on over-collected bank balances, to ensure that over-collections are returned to ratepayers in a timely manner. Once the over-collected balance hits \$10 million, UNSG must file an application for a surcredit within 45 days, or explain why a surcredit would not be in the public interest.

Since May 2014, when the Company's last PGA credit expired, actual natural gas prices have been below the levels included in prior forecasts. The PGA balance reached the \$10 million threshold in May 2015, and accordingly, the Company filed the instant application to institute the proposed 10.0 cents-per-therm temporary credit.

**STAFF'S ANALYSIS**

The proposed surcredit would be applied to customers' bills during the peak winter usage period of November through April. This will provide a benefit to ratepayers during the period when gas bills are highest.

UNSG considered a range of surcredit rates, including a 7.5 cent-per-therm credit, a 10 cent-per-therm credit, and a 12.5 cent-per-therm credit. UNSG identified the 10 cent-per-therm credit as its preferred alternative. The impacts of these various credit rates on the typical residential consumer bill and the attendant effect on the PGA bank balance at the end of the proposed credit period (i.e. April 2016) are summarized in Table I below.

**Table I**  
**Estimated Bill Impacts – Temporary PGA Credit**  
**Residential Service R-10 (with average winter consumption of 72 therms)**

	<b>Existing Rates &amp; PGA (August 2015)</b>	<b>Rates with \$0.075 PGA Credit</b>	<b>Rates with \$0.10 PGA Credit</b>	<b>Rates with \$0.125 PGA Credit</b>
Customer Charge	\$10.00	\$10.00	\$10.00	\$10.00
Delivery Charge	\$24.72	\$24.72	\$24.72	\$24.72
	\$34.72	\$34.72	\$34.72	\$34.72
PGA	\$38.16	\$32.76	\$30.96	\$29.16
DSM	\$ 0.04	\$ 0.04	\$0.04	\$0.04
<b>Total Bill</b>	<b>\$72.92</b>	<b>\$67.52</b>	<b>\$65.72</b>	<b>\$63.92</b>
<b>Total Monthly Bill Change from Existing August</b>	<b>N/A</b>	<b>(\$5.40)</b>	<b>(\$7.20)</b>	<b>(\$9.00)</b>
<b>Total Monthly Bill Change from Existing August (%)</b>	<b>N/A</b>	<b>-7.41%</b>	<b>-9.87%</b>	<b>-12.34%</b>
<b>Estimated April 2016 Over-collection</b>	<b>\$13.6 million</b>	<b>\$6.9 million</b>	<b>\$4.7 million</b>	<b>\$2.4 million</b>

UNSG's projections indicate that, without a credit to ratepayers, the PGA bank balance will continue to increase (absent a dramatic price increase in natural gas) with a forecast over-collection in April 2016 of \$13.6 million. Conversely, if a surcredit of 7.5 cents per therm were implemented, the over-collection would be reduced to \$6.9 million. At a surcredit rate of 10 cents per therm, the April 2016 over-collection would be \$4.7 million, and at a 12.5-cents-per-therm surcredit rate the over-collection would be reduced to \$2.4 million. Although the bank balance would be proportionately lower at the 12.5 cents-per-therm credit rate, Staff believes that there would also be

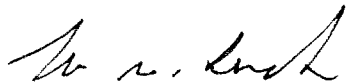
an increased risk that a relatively small upward natural gas price movement could result in under-collection and possibly the need for a surcharge.

Staff believes that the surcredit rate of 10 cents per therm strikes an appropriate balance between the reduction of the PGA over-collection while providing an adequate short-term buffer to increased natural gas costs. In addition, the right to terminate the surcredit in the event that the bank balance reaches zero would limit the under-collections that might occur if the surcredit stayed in effect after the bank balance hit zero, provided that the Company notifies the Commission within 15 days of its decision to terminate the surcredit.

### **STAFF RECOMMENDATIONS**

Staff recommends that the Commission approve a temporary surcredit adjustment to the PGA rate of 10.0 cents per therm beginning November 1, 2015, through April 30, 2016.

Staff further recommends that the Company be authorized to terminate the temporary surcredit in the event the PGA bank balance reaches zero at any time during the proposed term, provided that the Company notifies the Commission within 15 days of its decision to terminate the surcredit.



Thomas M. Broderick  
Director  
Utilities Division

TMB:RBL:red\RRM

ORIGINATOR: Rick Lloyd

1                               **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   SUSAN BITTER SMITH  
3       Chairman

4   BOB STUMP  
5       Commissioner

6   BOB BURNS  
7       Commissioner

8   DOUG LITTLE  
9       Commissioner

10   TOM FORESE  
11       Commissioner

12  
13   IN THE MATTER OF THE APPLICATION  
14   OF UNS GAS, INC. FOR APPROVAL OF A  
15   TEMPORARY CUSTOMER CREDIT  
16   ADJUSTMENT FOR THE PERIOD OF  
17   NOVEMBER 1, 2015, THROUGH APRIL 30,  
18   2016.

DOCKET NO. G-04204A-15-0307

DECISION NO. \_\_\_\_\_

ORDER

19  
20   Open Meeting  
21   October 20 and 21, 2015  
22   Phoenix, Arizona

23   BY THE COMMISSION:

24                               **FINDINGS OF FACT**

25           1.     UNS Gas, Inc. ("UNSG" or "Company") is certificated to provide natural gas service  
26   as a public service corporation in Arizona.

27           2.     On August 24, 2015, UNSG filed an application for approval of a temporary  
28   Purchased Gas Adjustor ("PGA") credit adjustment of 10.0 cents per therm for the period of  
29   November 1, 2015, though April 30, 2016. UNSG also seeks approval to terminate the temporary  
30   credit in the event the PGA bank balance reaches zero at any time during the proposed term. UNSG  
31   requests expedited treatment of this application to ensure that the adjustment is effective as of  
32   November 1, 2015.

33   **Background**

34           3.     UNSG uses the PGA as a mechanism to recover the cost of natural gas purchased by  
35   UNSG on behalf of its customers. The Company's monthly PGA rate is calculated based on a 12-  
36   month rolling average, with a \$0.15 per therm bandwidth. The rolling average and bandwidth are

1 designed to reduce the volatility of gas cost passed on to customers. The rolling average produces a  
2 more predictable and consistent PGA rate, while the bandwidth provides another brake on volatility.  
3 Both of these features limit rate shock to customers.

4 4. Differences between the rolling average cost of gas and the actual cost of natural gas  
5 are tracked and recorded in the PGA bank balance, so that under-collections can be recovered by the  
6 Company and over-collections can be returned to ratepayers. Decision No. 70011 (November 27,  
7 2007) imposed a \$10 million threshold on over-collected bank balances, to ensure that over-  
8 collections are returned to ratepayers in a timely manner. Once the over-collected balance hits \$10  
9 million, UNSG must file an application for a surcredit within 45 days, or explain why a surcredit  
10 would not be in the public interest.

11 5. Since May 2014, when the Company's last PGA credit expired, actual natural gas prices  
12 have been below the levels included in prior forecasts. The PGA balance reached the \$10 million  
13 threshold in May 2015, and accordingly, the Company filed the instant application to institute the  
14 proposed 10.0 cents-per-therm temporary credit.

#### 15 **Staff's Analysis**

16 6. The proposed surcredit would be applied to customers' bills during the peak winter  
17 usage period of November through April. This will provide a benefit to ratepayers during the period  
18 when gas bills are highest.

19 7. UNSG considered a range of surcredit rates, including a 7.5 cent-per-therm credit, a 10  
20 cent-per-therm credit, and a 12.5 cent-per-therm credit. UNSG identified the 10 cent-per-therm  
21 credit as its preferred alternative. The impacts of these various credit rates on the typical residential  
22 consumer bill and the attendant effect on the PGA bank balance at the end of the proposed credit  
23 period (i.e. April 2016) are summarized in Table I below.

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Table I

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<b>Estimated April 2016 Over- collection</b>	<b>\$13.6 million</b>	<b>\$6.9 million</b>	<b>\$4.7 million</b>	<b>\$2.4 million</b>

8. UNSG's projections indicate that, without a credit to ratepayers, the PGA bank balance will continue to increase (absent a dramatic price increase in natural gas) with a forecast over-collection in April 2016 of \$13.6 million. Conversely, if a surcredit of 7.5 cents per therm were implemented, the over-collection would be reduced to \$6.9 million. At a surcredit rate of 10 cents per therm, the April 2016 over-collection would be \$4.7 million, and at a 12.5-cents-per-therm surcredit rate the over-collection would be reduced to \$2.4 million. Although the bank balance would be proportionately lower at the 12.5 cents-per-therm credit rate, Staff believes that there would also be an increased risk that a relatively small upward natural gas price movement could result in under-collection and possibly the need for a surcharge.

9. Staff believes that the surcredit rate of 10 cents per therm strikes an appropriate balance between the reduction of the PGA over-collection while providing an adequate short-term buffer to increased natural gas costs. In addition, the right to terminate the surcredit in the event that

1 the bank balance reaches zero would limit the under-collections that might occur if the surcredit  
2 stayed in effect after the bank balance hit zero, provided that the Company notifies the Commission  
3 within 15 days of its decision to terminate the surcredit.

#### 4 **Recommendations**

5 10. Staff has recommended that the Commission approve a temporary surcredit  
6 adjustment to the PGA rate of 10.0 cents per therm beginning November 1, 2015, through April 30,  
7 2016.

8 11. Staff has further recommended that the Company be authorized to terminate the  
9 temporary surcredit in the event the PGA bank balance reaches zero at any time during the proposed  
10 term, provided that the Company notifies the Commission within 15 days of its decision to terminate  
11 the surcredit.

#### 12 CONCLUSIONS OF LAW

13 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of Article  
14 XV, Section 2, of the Arizona constitution.

15 2. The Commission has jurisdiction over UNS Gas, Inc. and over the subject matter of  
16 the Application.

17 3. The Commission, having reviewed UNS Gas, Inc.'s Application and Staff's  
18 Memorandum dated October 6, 2015, finds that it is in the public interest to approve the temporary  
19 Purchased Gas Adjustor customer credit adjustment for the period November 1, 2015 through April  
20 30, 2016, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that a temporary customer surcredit adjustment to the UNS Gas, Inc. PGA rate of 10.0 cents per therm beginning November 1, 2015, through April 30, 2016, be and hereby is approved.

IT IS FURTHER ORDERED that UNS Gas, Inc. is authorized to terminate the temporary surcredit in the event the PGA bank balance reaches zero at any time during the intended surcredit term, provided that the Company notifies the Commission within 15 days of its decision to terminate the surcredit.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

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JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

TMB:RBL:red/RRM

Decision No. \_\_\_\_\_



1 SERVICE LIST FOR: UNS Gas, Inc.  
2 DOCKET NO. G-04204A-15-0307

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8 Tucson Electric Power Company  
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17 Ms. Janice M. Alward  
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22 Mr. Dwight Nodes  
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